AR59

Wiseman Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

ES



98

ESKER RESOURCES LTD. ANNUAL REPORT

CORPORATE PROFILE & MISSION STATEMENT

Esker Resources Ltd. is a Calgary based, Canadian junior oil and gas resource company, incorporated in 1981 as a private company. The corporation became public in August 1993, after completing an Exchange Offering Prospectus, through The Alberta Stock Exchange. Esker Resources Ltd. trades on The Alberta Stock Exchange under the trading symbol "ESR".

The officers and directors of Esker own a significant portion of the company, further supporting an added commitment to the successful efforts of the company and to the welfare of all shareholders. The company intends to grow through the drill bit. Through investment of cash flow and funds raised with timely equity issues, Esker is expected to continue to improve our financial position as a result of successful drilling and strategic production purchases. The board of directors does not intend to consider a merger as a method of growth at this time. Our strength is exploration people and as a result drilling will be our focus.

Esker explores for and develops oil and natural gas in specific geographical areas of Alberta, where management has the most geological expertise and knowledge, thereby reducing risk through experience. The company targets lower to medium risk prospects where immediate cash flow can be realized. In-house generated prospects are operated by the company.

HIGHLIGHTS

	1998	1997	Change
Proven Reserves			
Natural gas (MMcf)	6,682	4,564	+46%
Oil and liquids (MBbls)	159	330	-52%
BOE (MBbls)	828	786	+5%
Average Production Rate (calendar day)			
Natural gas (Mcf/d)	1,784	856	+108%
Oil and liquids (Bbls/d)	65	20	+225%
BOE per day	244	105	+132%
Total Sales			
Natural gas (MMcf)	665.7	282.9	+135%
Oil and liquids (Bbls)	23,620	8,190	+188%
BOE	90,190	36,479	+147%
Lands			
Gross working interest acres	57,503	73,375	-22%
Net working interest acres	20,618	15,432	+34%
Gross GORR acres	21,650	31,850	-32%
Average working interest	36%	21%	+71%
Financial			
Gross revenue, less royalties	$ 1,510,437	$ 583,037	+159%
Net Income (loss)	$ 328,596	$ (78,083)	+521%
Funds from operations	$ 893,150	$ 91,854	+872%
Basic Income (loss) per share	$ 0.02	$ (0.01)	+300%
Funds from operations per share	$ 0.06	$ 0.01	+500%
Exploration & development expenditures	$ 2,940,339	$ 1,916,974	+53%
Issue of common shares	$ 1,712,165	$ 1,981,450	-14%
Bank loan	$ NIL	$ NIL	
Retained Earnings (Deficit)	$ 14,541	$ (314,055)	+105%

ANNUAL SHAREHOLDERS MEETING

The Annual General Meeting of Shareholders of Esker Resources Ltd. will be held Tuesday, June 15, 1999 at 3:00 p.m. (Calgary time), in the Governors Room of The 400 Club, 710 - 4th Ave. S.W., Calgary, Alberta.

ESKER
RESOURCES LTD.

Business Reference Library
University of Alberta
118 Business Building
Edmonton, Alberta T6G 2R6

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Esker Resources Ltd. continued to grow throughout the year after it's successful start in the first quarter. Fiscal 1998 was a record year since going public in 1993. Despite falling oil prices throughout the year, Esker maintained an improved financial picture in successive quarterly reports.

The 1997 Annual Report - forecasted Esker's agenda for 1998 which was to **"rationalize our properties by selling some of our high administration/low interest properties"**, **"take larger interests"**, **"operate our own in-house generated prospects"**, **"divert some cash flow generated by our new success into Alberta land sales in order to acquire more land"** and **" fund raising activities are planned"**. All these objectives were attained. We sold two small interest, high operating cost properties at Altario and Shouldice, Alberta. We operated three of our own company generated prospects at Cherry, Wainwright and Fenn Big Valley. In each of these prospects Esker's working interest increased dramatically to 50%, 100% and 50%, respectively. As planned, Esker purchased more net acres for oil and gas exploration than in any other previous year, both at Alberta land sales as well as directly from other oil and gas operators. We also traded land at Nipisi for interests at Cherry, purchased land at Cherry from other companies, and purchased 100% interests in land through Alberta land sales at Bindloss, Murray Lake and Wainwright. Also we purchased with our partner further interests in common lands at Wainwright. Lastly, Esker completed a flow through and a private placement financing in May and June of 1998. This important and timely $1.72 MM financing made it possible for Esker to attain it's objectives and create real growth.

The two biggest impact prospects for Esker were at Cherry in Southern Alberta and Wild River in West Central Alberta. Both discovery wells were cased in January, were on production by March and had successful development follow-up wells later in the year. These two properties will continue to be important to Esker and will provide further exploration and development drilling opportunities.

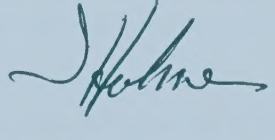
New in-house gas prospects have been developed at Bindloss, Paddle River and Wainwright. Land has been purchased and seismic shot on two of these 1999 drilling prospects. Esker has a 100% working interest on each of these exciting plays.

Our 1998 success can be measured by the large increase (132%) in the average calendar day production rate from 105 BOE/d in 1997 to 244 BOE/d in 1998. As well, Esker's financial statements reflect a profitable year with a very large increase in cash flow and gross revenue. Esker has avoided a ceiling test problem which can be created by low oil prices as our production income is 78% generated from natural gas production. Our combined proven reserve base increased modestly over 1997 (after replacing production) even though oil reserves decreased due to pricing and geological mapping.

What's in store for Esker in 1999? We intend to be patient, spend our cash flow cautiously and wisely, control debt, invest in production equipment infrastructure for both our Cherry oil property and some gas gathering systems at Wainwright. Future financings in 1999 may occur if the junior oil market rebounds and Esker begins to trade closer to its asset value. We have reasonable cash flow, which will be sufficient to create growth, while we weather the storm of low oil prices and a lack of interest in junior oil company shares.

Esker's production is currently 82% natural gas, with upside in some new high interest gas plays. Evidence of a sustained oil price increase is beginning to emerge in the current markets. If this trend continues Esker has an inventory of oil prospects which can be activated very quickly as the oil price improves. I look forward to another record year for Esker in 1999.

On Behalf of the Board of Directors,



Ian G. Holmes
President and Chief Executive Officer
Calgary, Alberta
April 15, 1999

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE FINANCIAL RESULTS

A record year was recorded for Esker in 1998, from the point of view of cash flow, revenue, profit and sales. The most dramatic improvement came in the form of funds from operations, as an 872% increase was experienced with a total of $ 893,150 in 1998 as compared to $ 91,854 in 1997. On a per share basis the increase went from $0.01 in 1997 to $0.06 in 1998, a 500% increase. Total revenue from oil, natural gas liquids and natural gas sales after royalties and the Alberta Royalty Tax Credit, rose to $1,501,508 in 1998 from $ 583,037 in 1997, a 157% increase. The large increase can be directly attributed to the 132% increase in average production rate in 1998. Also a slight increase in the average gas price (3%) can account for part of the record revenue amount. Total sales increased by 147% to 90,190 BOE from 36,479 BOE in 1997. Esker was very profitable in 1998 with an income of $328,596, representing $0.02 per share. Royalty expenses amounted to $159,071 and the Alberta Royalty Tax Credit was $31,556 as compared with $149,864 and $25,508 respectively in 1997. The net royalties payable did not rise proportionately with net income because of the royalty free status of two of our new 1998 wells. There also are retained earnings of $14,541 on our financial statements now. The ceiling test performed at year end resulted in a substantial excess and no write-down of assets was necessary.

The following table summarizes the product prices Esker received during the 1998 and 1997 years:

Prices of Products	1998	1997	Change
Average Gas Price / Mcf.	$1.93	$1.88	+3%
Average Oil Price / Bbl.	$14.16	$24.24	-42%
Average Liquids Price / Bbl.	$15.23	$23.23	-34%
Average Combined Price / BOE	$16.23	$22.09	-27%

General and administrative costs increased by 13% to $242,172 as a direct result of staff additions, new office rental expenses, office equipment rentals and additions and salary increases. The increase in drilling and completion work related to an increase in the capitalized general and administrative expenses from $88,300 in 1997 to $222,740 in 1998. Depletion and depreciation expense increased by 232% due to increased production and a larger depletable base resulting from the increased total capital expenditures. The 1998 provision for site restoration and abandonment costs is included in the depletion and depreciation expense category.

Interest expense decreased by 33% in 1998 ($6,695) over that of 1997 ($9,978) primarily as a result of the fund raising efforts during the year. At year-end Esker did not have any bank debt. The approved line of credit at year-end was $900,000 from the Bank Of Nova Scotia. The bank has indicated to Esker that in May of 1999, the bank will increase Esker's line to a minimum of $1,500,000. At December 31, 1998, the company's working capital deficiency was $290,150 as compared to year-end 1997 at $60,384.

Operating costs on a barrel of oil equivalent basis were $4.08/BOE in 1998 as compared to $7.29/BOE in 1997. The reduction was due mainly to the addition of lower cost new gas production and the selling of two higher cost properties during the year. Finding and on stream costs of new proven and probable reserve additions was $6.45/BOE in 1998 and $1.08/BOE in 1997. The difference can be partially explained as a result of the change in the reservoir engineering firm's evaluation techniques on probable reserves and the fact that costs of equipping and completing associated with 1997 reserve additions were incurred in 1998.

The following table summarizes the asset value before taxes of Esker Resources Ltd.. The decrease in value from 1997 to 1998, can be directly attributed to a very large decrease in probable reserves value assigned by the new engineering firm, Sproule Associates Limited. The differing probable reserve assignment techniques between our 1997 evaluation company and the new 1998 evaluation company, changed the total probable reserves assigned.

Net Asset Value	1998	1997	1996
Discount Factor	10%	10%	10%
Proven Reserves (Escalated Pricing)	$ 8,516,000	$ 4,938,000	$ 3,889,900
Probable Reserves risked @ 50%	$ 582,500	$ 4,903,000	$ 1,037,800
Undeveloped Property	$ 1,193,130	$ 608,000	$ 38,048
Seismic	$ 461,900	$ 200,400	$ NIL
Net Working Capital	$ (290,150)	$ (60,384)	$ (188,050)
Long Term Debt	$ NIL	$ NIL	$ NIL
Net Asset Value - Basic	**$10,463,380**	**$10,589,016**	**$ 4,777,698**
Proceeds on Conversion of Outstanding Warrants and Vested Stock Options	$ 890,874	$ 191,250	$ 159,750
Net Asset Value - Fully Diluted	**$11,354,254**	**$10,780,266**	**$ 4,937,448**
Basic - Common Shares	17,262,601	14,606,501	9,105,501
Fully Diluted - Common Shares	19,360,601	15,709,501	9,825,501
Net Asset Value Per Share - Basic	**$ 0.61**	**$ 0.72**	**$ 0.52**
Net Asset Value Per Share - Fully Diluted	**$ 0.59**	**$ 0.69**	**$ 0.50**

EXPLORATION AND DEVELOPMENT DRILLING

All of Esker's 1998 drilling was in Alberta. It was a year of change for Esker Resources Ltd., as we became an operator, having drilled a total of five wells. The wells were on our Wainwright (1), Cherry (3) and Fenn Big Valley (1) properties. As we prepare for the 1999 drilling season, Esker will operate the drilling of at least five wells over the next year. Plans are underway to operate the drilling of new wells at Cherry, Wainwright, Murray Lake, Bindloss and Fenn Big Valley over the next eighteen months.

Other properties, with non-operated drilling in 1998, were at Manyberries and Wild River in Alberta. The drilling results were as follows:

1998 - Working Interest Wells	Development	Exploratory	Total
Oil	4	1	5
Gas	1	1	2
Dry & Abandoned	4	0	4
TOTAL	9	2	11

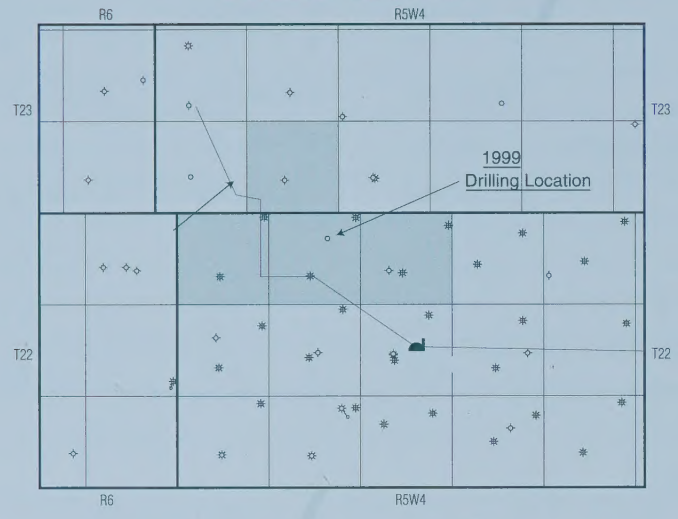
Esker's average working interest in the total wells for 1998 was 30%, up 131% from the 1997 average working interest of 13% in a total of 19 wells. This year's success rate was 64% as compared to 68% in 1997.

CAPITAL EXPENDITURES

Total 1998 capital expenditures combined, for exploration and development drilling, completions, equipping, geology, seismic and land acquisition was $2,940,339. Of this amount $338,592 was invested acquiring new land for drilling, $275,307 was spent on geology and acquiring or shooting seismic, $1,820,316 was used for drilling and completions and $506,124 was for equipping costs. The financing for this budget came from a combination of a flow through share issue in May, an equity issue in June and cash flow during the year. The bank line of credit was available and used only while waiting for cash flow to be deposited.

PROPERTIES

BINDLOSS - Esker Lands



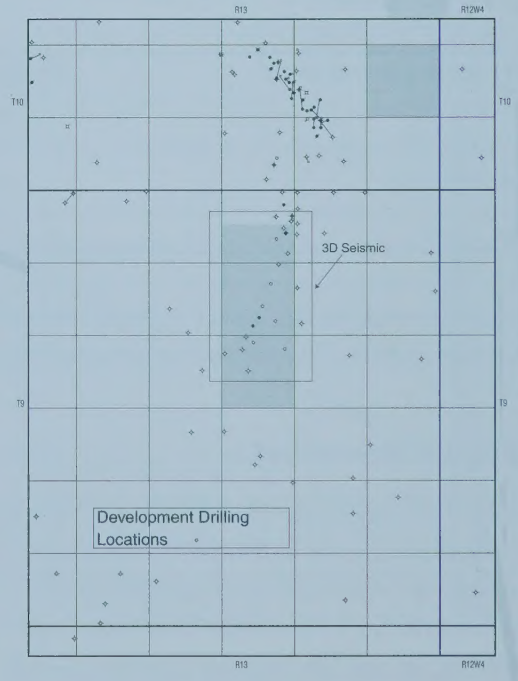
BINDLOSS, EAST CENTRAL ALBERTA

A new gas prospect, in which Esker has acquired 4 sections of new mineral leases at a 100% working interest, has been geophysically evaluated with a 2D seismic program. The land looks prospective for gas in the Viking, Colony and Sunburst sands, therefore a 950 meter test well is planned for 1999. Pipeline and gas plant space is available in the area and as a result we expect that a successful gas well would be on production immediately after completion. Further development locations would exist if the first well were successful.

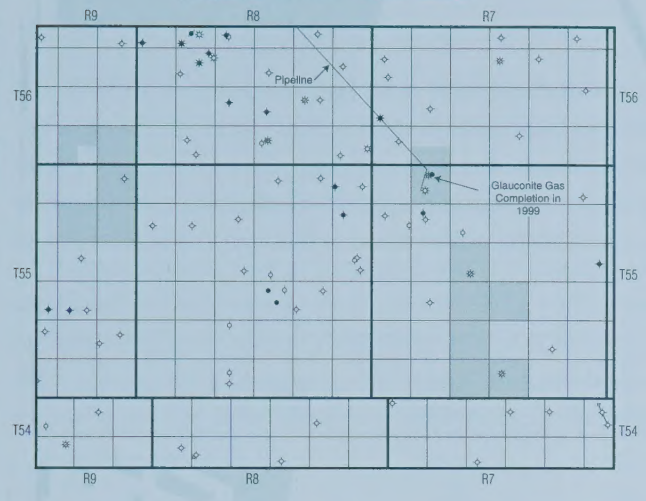
CHERRY, SOUTHEAST ALBERTA

This operated heavy oil property has been a focus area for Esker in 1998. A Glauconite sand oil discovery (3-27-9-13 W4) was made by Esker in January of 1998 and has been followed up with both a dry hole (14-22-9-13 W4) and a successful oil well (2-27-9-13 W4). A 2½ square mile 3D seismic program was shot in the spring of 1998 and has lead to a very exciting geological / geophysical interpretation of this Glauconite channel system. Both wells have been on production during 1998 and have both begun to produce significant amounts of water. Esker and its partners are about to re-enter an existing well bore at 8-34-9-13 W4 to convert it to a water disposal well and lay a 1¼ mile pipeline from our battery site at 3-27-9-13 W4 to the new disposal well. Having our own disposal well will significantly improve the economics of the project and allow us to increase the total oil production. Further exploratory drilling on newly acquired acreage offsetting our wells, is planned for 1999. Depending on heavy oil prices, we may also drill one or two more development wells this year.

CHERRY - Esker Lands



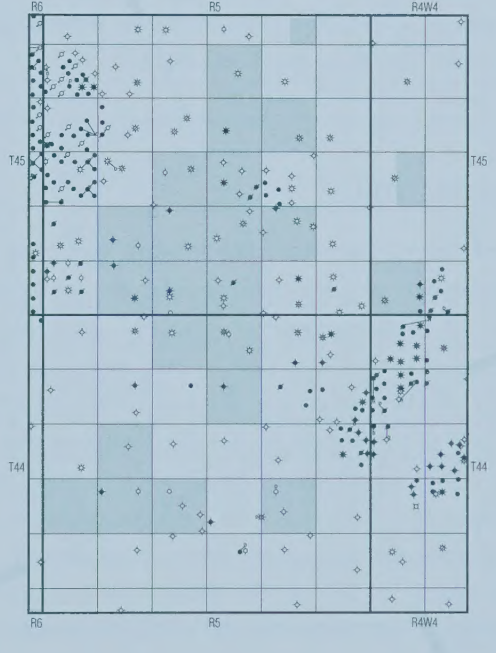
PADDLE RIVER - Esker Lands



PADDLE RIVER, CENTRAL ALBERTA

Effective January 1, 1999, Esker acquired a 100% working interest in 4¾ sections of gas / oil prospective acreage, which was acquired from another industry partner. Also purchased was a varying interest in a further 6 sections of land with two shut-in potential gas wells. Subsequent to year-end, Esker earned another 1½ sections by participating in a re-entry of a previously abandoned gas well at 14-32-55-7 W5. The well was re-entered to perforate and test the Glauconite sand, which resulted in a very successful gas well. Esker has a 24% working interest in the well, which will add 25 - 30 Boe/d. Esker has further drilling plans for these lands in 1999.

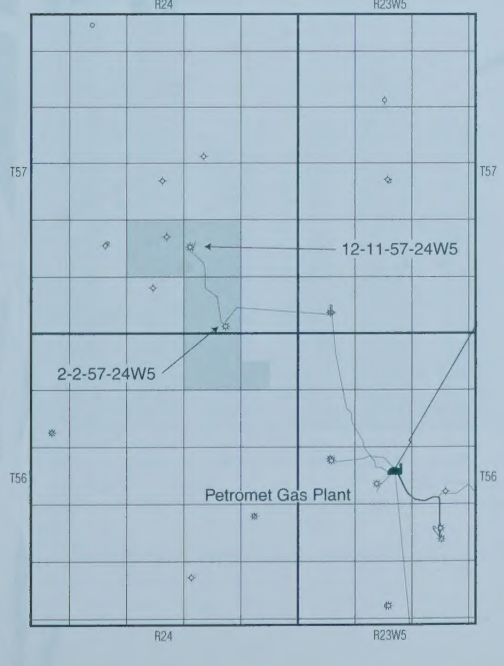
WAINWRIGHT - Esker Lands



WAINWRIGHT, EAST CENTRAL ALBERTA

Esker Resources Ltd. has some significant plans for this gas and oil property for 1999. Additional 100% acreage has been acquired over the past year and Esker expects to drill and rework several wells this year. A 2D seismic line has been planned, which will be shot in March with a 100% working interest well to follow. Plans are being made to re-enter several existing gas wells to either improve gas production or to tie-in currently shut-in wells.

WILD RIVER - Esker Lands



WILD RIVER, WEST CENTRAL ALBERTA

A successful exploratory gas well at 12-11-57-24 W5 was drilled over the summer of 1998. This Leduc pinnacle reef well was drilled to a depth of 4,252 meters (13,950 feet). Esker's interest remains at 10%, which is still very significant, as these deep gas wells have higher than average gas delivery rates. The initial well at 2-2-57-24 W5 produced at an average rate of 8.7 MMcf per calendar day for the ten months it was on production in 1998. The new well at 12-11 came on production in November of 1998 and produced initially at rates of 4-5 MMcf/d. Esker has a working interest in the gathering pipeline system, however does not own an interest in the gas plant and as a result pays custom processing fees. Our Aquila Canada gas contract was partially hedged forward for the winter months of '98 - '99 and as a result Esker received $2.81/Mcf for a portion of our gas production at Wild River. There are no significant drilling plans for 1999 on this property.

DIVESTITURES AND ACQUISITIONS

In the 1997 Annual report, Esker committed to shareholders to divest of some of its high administration / low interest properties during 1998. To that end in May 1998, Esker closed the sale of our Altario property to the operator for $140,000. The sale was effective April 1, 1998 and Esker sold a total of 8 BOE/d of production. Also, in January 1999, Esker sold its small interest in the Shouldice property. The sale price was $9,500 and the total production sold was <1 BOE/d. This property was also sold to existing partners in the property. Another small interest sale to the operator, of a section of land with no wells, occurred at Retlaw.

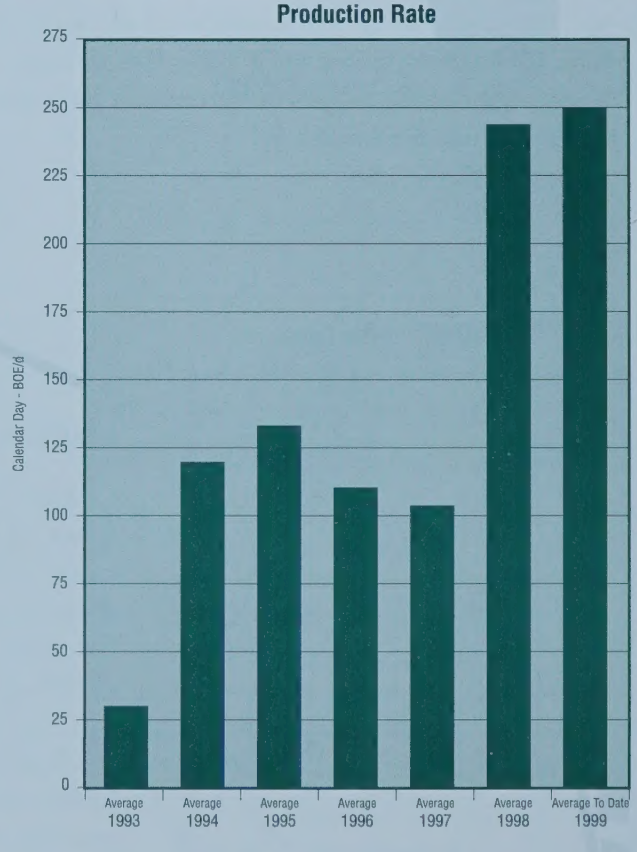
The majority of the acquisition transactions with industry partners during 1998 was to acquire more land (other than Alberta Land sales - see LAND PURCHASES AND INVENTORY page 8) in our areas of activity. At Cherry, we purchased the interests of offsetting landowners (1¼ sections) both with cash and with a land swap. At Wainwright, together with our partner, Esker acquired varying interests in 11¼ sections of new and overlapping lands including three potential gas wells and one producing gas well at a cost of $99,000.

Esker also acquired from an industry partner a block (4¾ sections) of unexplored gas / oil potential land (100% interest) in the Paddle River area of Central Alberta (see PROPERTIES). Included in the purchase was a further small interest in another 6 sections of land, which has two shut-in potential gas wells. Our interests in the gas wells vary from 23% in one to an ORR in the other. This acquisition cost Esker $75,000.

PRODUCTION

A record year was achieved when measuring Esker's performance on an average calendar day production rate basis. A 132% improvement over 1997 was realized at an average of 244 BOE/d in 1998, as compared to 105 BOE/d in 1997. The average gas rate increased 108% from 856 Mcf/d in 1997 to 1,784 Mcf/d in 1998. The average oil plus natural gas liquids rate improved by 225% to 65 Bbls/d in 1998 compared to 20 Bbls/d in 1997. On a BOE basis Esker's 1998 production rate average was 73% natural gas and 27% oil and natural gas liquids. The annual 1998 production total represents 10% (depletion rate) of Esker's January 1, 1998 proven reserves. Esker's 1998 exit rate based on the December 1998 average calendar day rate was 264 BOE/d.

New additions to production were mainly from two areas, where exploratory wildcat discoveries were made in January of 1998. Many of the press releases made this year concerned these two exciting areas. At Wild River (see PROPERTIES page 4) a new gas well in which Esker has a 10% working interest went on production in March 1998, while a new oil discovery at Cherry (see PROPERTIES page 4) in which Esker has a 50% working interest went on production in February 1998. Both areas added production late in the year as a second successful well on each property went on production during the year.



RESERVES EVALUATION

The following table presents Esker Resources Ltd.'s hydrocarbon reserves for each of the last three years. Each estimate of reserves and discounted cash flow values before taxes were derived by Cum Ben Engineering & Development Ltd. for 1996 - 1998 and Sproule Associates Limited for the current year 1999. These engineering firms carried out an independent examination of Esker's reserves for each of those years presented.

The table outlines a yearly comparison of the company's gross reserves (before royalties) using an escalated pricing forecast and unrisked probables.

	Reserve Category	Gas (MMcf)	Crude Oil and NGL (Bbls)	BOE (MBbls)	Annual Change	10% DCV M$
January 1, 1997	Proven	4,505	167,500	618.0		
	Probable	126	206,700	219.3		
	TOTAL	4,631	374,200	837.3	+49%	5,966
January 1, 1998	Proven	4,564	330,000	786.4		
	Probable	1,032	1,690,000	1,793.0		
	TOTAL	5,596	2,020,000	2,579.4	+208%	14,744
January 1, 1999	Proven	6,682	159,400	827.6		
	Probable	358	218,300	254.1		
	TOTAL	7,040	377,700	1,081.7	-58%	9,682

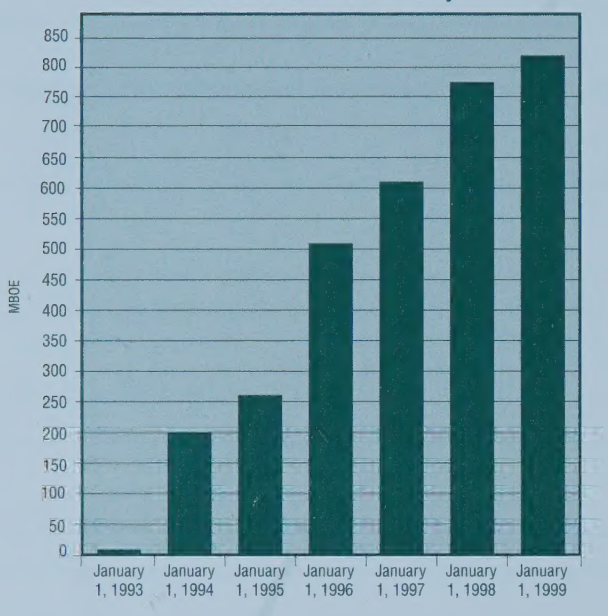
A change of reserves evaluation engineering companies occurred in 1999. Esker moved from a smaller independent firm to a larger more recognized national firm. The following table shows the differences (revisions to prior estimates) between the two firms. A review of the figures indicates that the new firm differs dramatically in the probable category, mostly due to the differing methodologies used. Also of note is the fact that Sproule Associates Limited reduced proven oil reserves and increased proven gas reserves. The changes occurred due to the added information available to Sproule at the time of their report evaluation. The revisions to prior estimates also include the reduction for property sales previously noted at Altario and Shouldice.

RECONCILIATION OF RESERVES SUMMARY

	Oil & NGL MBbls			Gas (MMcf)			Barrels Of Oil Equivalent (MBOE)
	Proven	Probable	Total	Proven	Probable	Total	Total
January 1, 1997	**167.5**	**206.7**	**374.2**	**4,505.4**	**125.6**	**4,631.0**	**837.3**
New Additions during 1997	170.0	1,483.0	1,653.0	371.2	906.7	1,277.9	1,780.8
Production during 1997	(7.5)	–	(7.5)	(312.4)	–	(312.4)	(38.7)
January 1, 1998	**330.0**	**1,689.7**	**2,019.7**	**4,564.2**	**1,032.3**	**5,596.5**	**2,579.4**
New Additions during 1998	59.6	183.4	243.0	1,771.9	357.6	2,129.5	455.9
Production during 1998	(23.7)	–	(23.7)	(651.2)	–	(651.2)	(88.8)
Revisions to prior estimates	(206.5)	(1,654.8)	(1,861.3)	997.0	(1,032.4)	(35.3)	(1,864.8)
January 1, 1999	**159.4**	**218.3**	**377.7**	**6,681.9**	**357.5**	**7,039.5**	**1,081.7**

- (Numbers in both tables may differ slightly due to rounding)

Esker's proven reserves increased by 5% over that of January 1, 1998. The 15% discounted cash value before taxes of those reserves also increased by 78% to $7,273,000. Pricing is a factor in the increased value, as gas price expectations are higher than last year. Also, Esker's proven reserve mix is 81% natural gas in the January 1, 1999 report and 58% in the January 1, 1998 report. The majority of the proven reserve additions were natural gas, which also contributed to the increased value of the reserves.





LAND PURCHASES AND INVENTORY

In June of 1998, Esker Resources Ltd. closed a private placement equity issue (see CAPITAL STOCK POSITION page 9) to raise a total of $500,500. Management decided to set these funds apart from the normal budget so that Esker had a source of funds for land acquisition. As a result Esker was successful at purchasing lands at the Alberta crown land sales. A total of 3,840 acres (1,536 hectares) were purchased for an average price of $55.40 /acre ($138.51 /ha.). Esker's working interest in the newly acquired lands is 100%. Esker also purchased additional interests in lands from other industry partners at Cherry and Paddle River. The remainder of the land budget ($162,000) will be invested in 1999.

The company's gross working interest land position decreased by 22% indicating the sale of low interest lands at Altario and Shouldice. The net working interest acres increased by 34% however, indicating the purchase of high interest lands. Esker's total GORR lands decreased by 32% as a result of lands reaching their expiry date. One of the 1998 goals was to increase Esker's working interest in prospects and that was achieved as evidenced by our average working interest increasing from 21% in 1997 to 36% in 1998. Several industry land deals involving land trades (Cherry), earning by drilling (Cherry, Wild River, Fenn Big Valley) or purchasing (Cherry, Paddle River, Wainwright) or selling (Altario & Shouldice) were made as well. Esker now owns a total of 15¼ sections of land with a 100% working interest, on 6 different oil and gas prospects. Our rights and interests vary on all the remaining 74 sections of land, in which we have a working interest.

The following table outlines Esker's working interest and GORR land positions as of December 31, 1998:

	Total Area	Developed	Undeveloped
Working Interest Lands			
Gross	57,503 acres	28,658 acres	28,845 acres
Net	20,618 acres	7,361 acres	13,257 acres
GORR Lands (Gross)	21,650 acres	9,130 acres	12,520 acres

CAPITAL STOCK POSITION

Esker issued a total of 2,656,100 common shares in 1998 for a net total after expenses of $1,712,165. These shares were issued in two separate private placements. On May 12, 1998, Esker closed a flow through share issue of 1,886,100 common shares at $.65 each for gross proceeds of $1,225,965. On June 3, 1998, Esker closed a private placement equity issue of 770,000 common shares at $.65 each for gross proceeds of $500,500 and 770,000 common share purchase warrants, with Network Capital Inc. on behalf on three of their Limited Partnerships. The warrants have a two year term, expiring on June 3, 2000 and can be exercised for 770,000 common shares at $.75 each. Esker as of December 31, 1998 has a total of 17,262,601 common shares issued and outstanding.

The private placement flow through and equity funds raised were used for our exploration and development budgets, to cover the costs of drilling, completions, equipping, seismic and land / property purchases. On an historical note, Esker Resources Ltd. has raised a net total of $5,852,030 at an average price of $.34 each, since recapitalizing the company in February 1993 and going public in August of 1993.

The first half of 1998, was a very exciting time for Esker on the Alberta Stock Exchange. The company's shares traded at an all time high, up to $.75 each. The total trading volume for the year was 3,073,920 of which 83% (2,004,920 shares) were traded in the first half. The following table summarizes the years trading as compared to the previous year 1997.

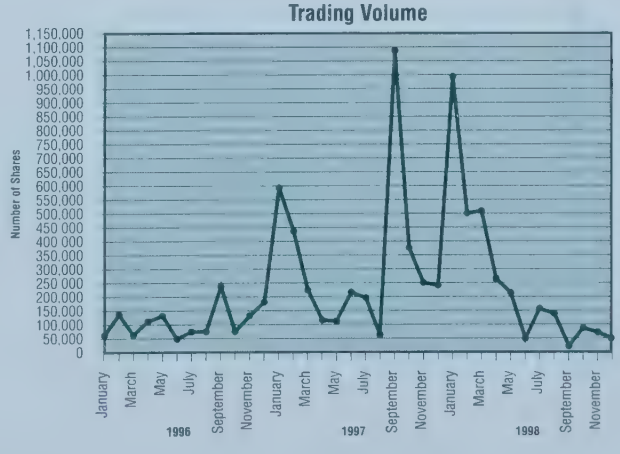
January through December	1998	1997	change
High	$0.75	$0.57	+32%
Low	$0.27	$0.18	+50%
Close	$0.34	$0.45	-24%
Volume	3,073,920	3,923,200	-22%

The trading activity during the second half of 1998 was not as exciting however. The falling world oil price began to have a negative effect on all oil and gas stocks and Esker was no exception. Our trading price fell over the year to close at $.34, a 24% decline since the beginning of the year ($.45).

Securities regulations allow companies to issue up to 10% of the issued and outstanding common shares in the form of options. Esker Resources Ltd. has a stock option plan for directors, officers, employees and others. As Esker issued additional common shares during 1998, the directors approved the issuance of additional options as well. A total of 225,000 options were granted during 1998 at prices ranging from $.40 to $.60. These options were issued to two directors, one officer and two consultants. As of December 31, 1998 there are 1,328,000 options to acquire common shares of Esker Resources Ltd. outstanding. A total of 378,000 options at $.25 each, expire on October 14, 1999, if unexercised prior to this date.

On a fully diluted basis, Esker Resources Ltd. has a total of 19,360,601 shares at December 31, 1998. As of the date of this report, no additional shares have been issued in 1999, however, an additional 10,000 share option has been applied for and conditionally approved for issuance on March 8, 1999.





BUSINESS RISKS

The oil and gas industry is a high-risk business, as there are no guarantees of finding new reserves or of finding market outlets for existing shut-in reserves. This annual report reflects actual 1998 results and contains forward-looking statements that are subject to risk factors associated with the oil and gas business. The company believes that the expectations reflected in this report are reasonable, however results could be affected by variables including, but not limited to, price fluctuations, industry competition, environmental risks, political risks and capital restrictions. Esker Resources Ltd. reduces risk by exploring for and developing oil and natural gas assets in areas were the technical staff has a high degree of experience and understanding of the risks involved in each geological play. Esker also maintains insurance coverage, in accordance with prudent industry standards, to reduce the risks associated with oil and gas field operations.

YEAR 2000 (Y2K) COMPLIANCE ISSUE

The management of Esker has organized a year 2000 compliance plan and have completed a significant portion of that plan to date. The plan involves contacting all significant third parties to ensure they also have a Y2K plan and are well underway to solving any potential problems. The plan also will address any potential problems related to Esker's operated properties and it's in-house office computer hardware and software programs. Also included in the plan is a commitment to test all equipment that is date dependent.

As of the publication date of this report all of Esker's in-house date dependent equipment and software such as computers, phones, printers etc. have been checked and tested and are expected to be Y2K ready. Many of Esker's outside suppliers such as accounting services, oil and gas information and mapping services, transfer agent, land administration software services and the like, all have plans in place and are either ready now or are working on it and will be before year end.

Esker has budgeted for costs related to the Y2K Issue and those costs are not expected to be material to our financial position or results. It is not possible to be certain that all aspects of the Year 2000 Issue affecting Esker, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

EXPLORATION / PRODUCTION TEAM

Exploration / Production Team - officers, employees and consultants (c).

Geology
Howard Swennumson
Ian Holmes

Geophysics
Ron Newman (c)

Land
Dennis Harder (c)

Land Administration
Ellen Dewar (c)
Karen Alderson

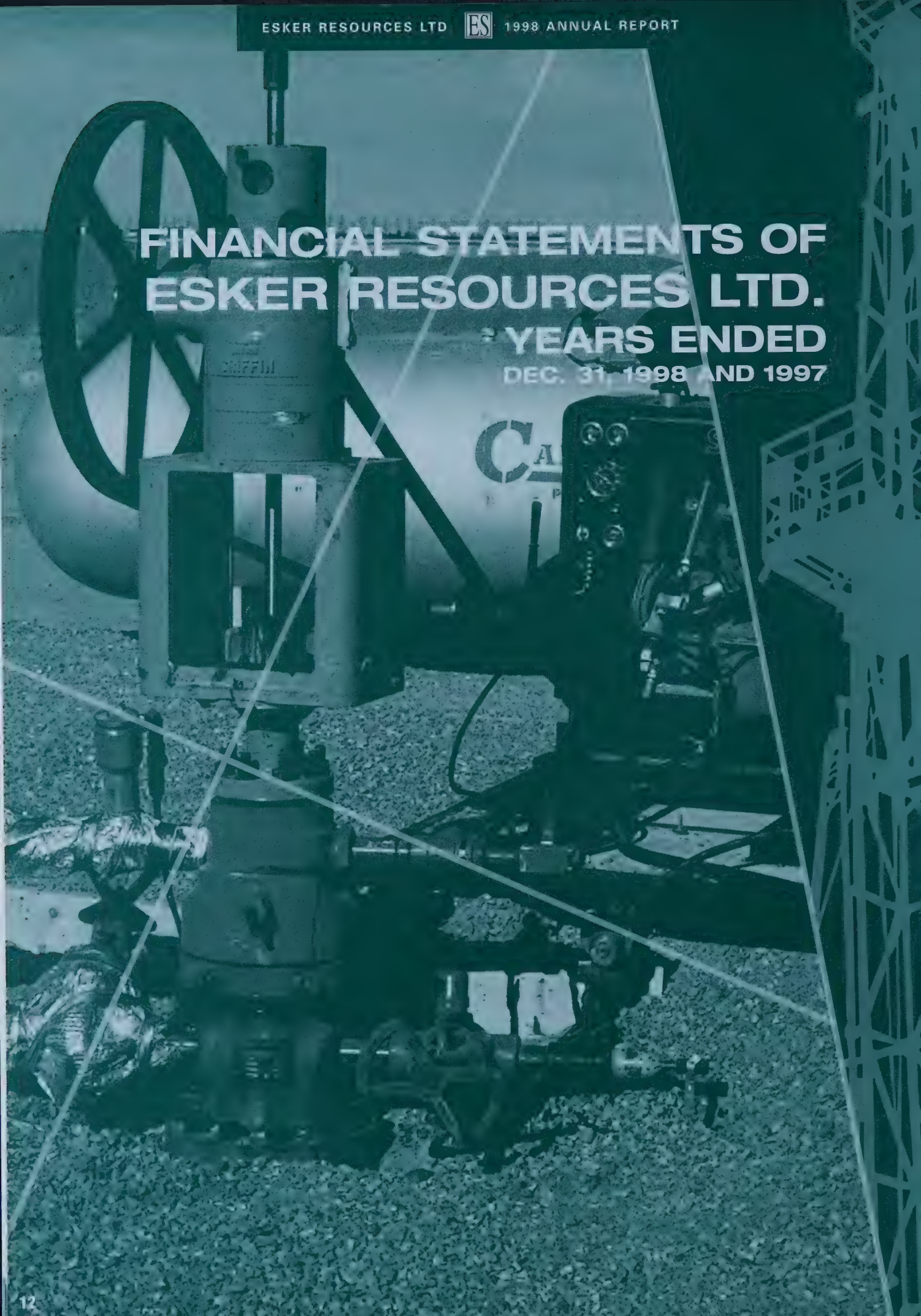
Engineering and Operations
Barry Holizki (c)
Howard Swennumson

Accounting
Tom Briggs
Joanne Schwass (c)
Bob Gaskell (c)

Administration / Investor Relations
Ian Holmes
Karen Alderson

ABBREVIATIONS USED IN REPORT

M$	-	Thousand dollars
Mcf/d	-	Thousand cubic feet per day
MM	-	Million
Mcf	-	Thousand cubic feet
MMcf	-	Million cubic feet
MMcf/d	-	Million cubic feet per day
MBbls	-	Thousand Barrels
MBOE	-	Thousand Barrels of Oil Equivalent
Bbls/d	-	Barrels per day
Bbls	-	Barrels
BOPD	-	Barrels of oil per day
BOE/d	-	Barrels of Oil Equivalent per day
AEUB	-	Alberta Energy and Utilities Board
DCV	-	Discounted cash value
NGL	-	Natural Gas Liquid
ORR	-	Overriding royalty
GORR	-	Gross Overriding Royalty
BOE	-	Barrels of Oil Equivalent (Convert gas to oil at a ratio of 10 Mcf: 1 Bbl.)
ha.	-	Hectare
2D	-	two dimensional
3D	-	three dimensional



FINANCIAL STATEMENTS OF ESKER RESOURCES LTD.

YEARS ENDED DEC. 31, 1998 AND 1997

MANAGEMENT'S REPORT

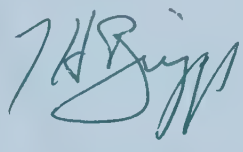
The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial and operating data appearing throughout the report is presented on a basis consistent with the financial statements.

Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced in a timely manner.

The financial statements have been examined by external auditors who were appointed by the Company's shareholders and whose report is set forth below. The Audit Committee of the Board of Directors has reviewed these financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Ian G. Holmes
President and Chief Executive Officer



Tom H. Briggs
Chief Financial Officer and Secretary

April 15, 1999

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Esker Resources Ltd. as at December 31, 1998 and 1997 and the statements of operations and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 10, 1999

Balance Sheets

December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Cash	$ 39,642	$ 415,034
Accounts receivable	494,603	250,368
	534,245	665,402
Capital assets (note 2)	4,624,999	2,895,366
	$ 5,159,244	$ 3,560,768
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 824,395	$ 725,786
Provision for site restoration costs	212,963	207,077
Shareholders' equity:		
Capital stock (note 3)	4,107,345	2,941,960
Retained earnings (deficit)	14,541	(314,055)
	4,121,886	2,627,905
	$ 5,159,244	$ 3,560,768

See accompanying notes to financial statements.

Approved by the Board of Directors:



Director



Director

Statements of Operations and Retained Earnings (Deficit)

Years ended December 31, 1998 and 1997

	1998	1997
Revenue:		
Oil and gas sales, less royalties	$ 1,501,508	$ 583,037
Interest and other income	8,929	–
	1,510,437	583,037
Expenses:		
General and administrative	242,172	215,209
Oil and gas operating	368,420	265,996
Interest	6,695	9,978
Depletion and depreciation	564,554	169,937
	1,181,841	661,120
Net income (loss)	328,596	(78,083)
Deficit, beginning of year	(314,055)	(235,972)
Retained earnings (deficit) end of year	$ 14,541	$ (314,055)
Basic income (loss) per share	$ 0.02	$ (0.01)

See accompanying notes to financial statements.

Statements of Changes in Financial Position

Years ended December 31, 1998 and 1997

	1998	1997
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the year	$ 328,596	$ (78,083)
Items not involving cash:		
Depletion and depreciation	564,554	169,937
Funds from operations	893,150	91,854
Net change in non-cash operating working capital	(145,626)	554,767
	747,524	646,621
Financing activities:		
Issue of common shares	1,712,165	1,981,450
Bank loan	–	(248,123)
	1,712,165	1,733,327
Investing activities:		
Exploration and development expenditures	(2,940,339)	(1,916,974)
Site restoration costs incurred	(19,380)	–
Proceeds on disposal of capital assets	140,000	–
Acquisition of capital assets	(15,362)	(28,664)
	(2,835,081)	(1,945,638)
Increase (Decrease) in cash	(375,392)	434,310
Cash, beginning of year	415,034	(19,276)
Cash, end of year	$ 39,642	$ 415,034
Funds from operations per share	$ 0.06	$ 0.01
Fully diluted funds from operations per share	$ 0.05	$ 0.01

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 1998 and 1997

1. Significant accounting policies:

(a) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

The costs of petroleum and natural gas interests are depleted and depreciated by the unit-of-production method based on the estimated gross proved reserves. Petroleum and natural gas reserves and production are stated in equivalent units based upon estimated units of revenue.

The capitalized costs of petroleum and natural gas interests less accumulated depletion and depreciation are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties less estimated future general and administrative expenses, site restoration costs, financing costs and income taxes.

(b) Other capital assets:

Other capital assets are recorded at cost and are depreciated by the declining balance method at 20%.

(c) Joint ventures:

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(d) Provision for site restoration costs:

Estimated future site restoration costs are provided using the unit of production method based on estimated gross proved reserves. The annual charge is included in depletion and depreciation and the accumulated provision is reflected as a long-term liability. Site restoration expenditures are charged to the accumulated provision account as incurred.

(e) Income taxes:

The Company follows the tax allocation method of accounting for income taxes. Under this method, deferred income taxes are recorded to the extent that income taxes, otherwise payable, are deferred by claiming capital cost allowances and exploration and development costs in excess of depletion and depreciation recorded in the financial statements.

Notes to Financial Statements, Page 2

Years ended December 31, 1998 and 1997

1. Significant accounting policies (continued):

(f) Flow through shares:

The proceeds from issuance of flow-through shares have been reduced by the estimated tax benefits renounced to shareholders.

(g) Per share information:

Per share amounts have been computed using the weighted average number of common shares outstanding during the year (16,262,905 in 1998; 11,323,306 in 1997). Fully diluted per share amounts give effect to the issuance of warrants and shares under option agreements as if they had been issued at the beginning of the year.

2. Capital assets:

	1998	1997
Petroleum and natural gas interests	$ 5,978,929	$ 3,725,371
Other	74,174	58,812
	6,053,103	3,784,183
Accumulated depletion and depreciation	1,428,104	888,817
	$ 4,624,999	$ 2,895,366

During the year $222,740 (1997 - $88,300) of general and administrative expenses related to exploration and development were capitalized.

Costs related to undeveloped interests which are excluded from the depletion base amounted to $264,465 at December 31, 1998 (1997 - $44,220).

3. Capital stock:

(a) Authorized:

Authorized capital stock consists of an unlimited number of common shares without par value and an unlimited number of preferred shares issuable in series.

(b) Issued:

Common shares

	Number of shares	Amount
December 31, 1996	9,150,501	$ 1,824,780
Flow through shares	5,377,000	1,962,450
Exercise of stock options	79,000	19,000
Income tax effect on flow through shares	–	(864,270)
December 31, 1997	14,606,501	2,941,960
Flow through shares	1,886,100	1,212,765
Common shares	770,000	499,400
Income tax effect on flow through shares	–	(546,780)
December 31, 1998	17,262,601	$ 4,107,345

Notes to Financial Statements, Page 3

Years ended December 31, 1998 and 1997

3. Capital stock (continued):

(c) Options:

At December 31, 1998, 1,328,000 (1997 - 1,103,000) common shares have been reserved and allotted under the Company's stock option plan. The options are exerciseable at prices ranging from $0.20 to $0.60 per share and expire at varying dates from October 1999 through October 2003.

(d) Warrants:

At December 31, 1998, 770,000 common share purchase warrants to purchase one common share each at $0.75 are outstanding and are exerciseable until June 3, 2000.

4. Operating bank loan:

The Company has a $900,000 revolving production loan facility with a major Canadian chartered bank. The credit facility has no fixed terms of repayment and is subject to an annual review. At the lender's option, the loan may be converted to a term facility with repayment terms as determined by the bank. Any outstanding debt bears interest at the bank's prime rate plus 1%. The Company has provided security for the credit facility under Section 426 of the Bank Act with respect to certain oil and gas interests, an assignment of book debts, a letter of undertaking not to pledge assets of the Company and a $3,000,000 demand debenture secured by a first floating charge over all other assets.

5. Income taxes:

Income taxes differ from the results which would be obtained by applying the combined Federal and Provincial income tax rates of 44.6% to the net income (loss) before income taxes. The difference results from the following:

	1998	1997
Expected income tax provision	$ 146,553	$ (34,357)
Increase (decrease) resulting from:		
Non-deductible crown charges	17,985	29,357
Resource allowance	(69,643)	(11,224)
Provincial royalty credits	(14,570)	(9,044)
Non-deductible depletion	92,875	22,985
Benefit of prior year losses	(163,959)	–
Other	(9,241)	2,283
Tax provision	$ –	$ –

At December 31, 1998 the Company has approximately $2,766,000 of income tax deductions available to reduce future taxable income.

Capital assets include costs with a net book value of $1,878,000 expended under flow through share arrangements and for which the income tax benefits have been renounced to shareholders.

Notes to Financial Statements, Page 4

Years ended December 31, 1998 and 1997

6. Financial Instruments:

(a) Credit risk:

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Purchases of the Corporation's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(b) Fair values:

The fair values of the Corporation's monetary assets and liabilities approximated their carrying values at December 31, 1998 and 1997.

7. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

DIRECTORS

***David H.Erickson,** P. Geol.
President
Erickson Resources Ltd.
Calgary, Alberta

***Ian G. Holmes,** P. Geol.
President and Chief Executive Officer
Esker Resources Ltd.
Calgary, Alberta

***Tom H. Briggs,** C.A.
Chartered Accountant
Calgary, Alberta

***Ronald R. Sirois,** P. Land
President
Romtrek Petroleums Ltd.
Calgary, Alberta

* Member of Audit Committee

OFFICERS

Ian G. Holmes, P. Geol.
President and Chief Executive Officer

Tom H. Briggs, C.A.
Chief Financial Officer and Secretary

Howard L. Swennumson, P. Geol.
Vice President Exploration

HEAD OFFICE

Suite 600, 706 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z1
Tel: (403) 269-2367
Fax: (403) 294-0287
E-mail: info@eskerresources.com

EVALUATION ENGINEERS

Sproule Associates Limited
Calgary, Alberta

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

SOLICITOR

Gregory B. Matthews
Barrister and Solicitor
Calgary, Alberta

EXCHANGE LISTING

The Alberta stock Exchange
Trading Symbol: **ESR**

BANKERS

Bank of Nova Scotia
Calgary, Alberta

INTERNET WEBSITE

www.eskerresources.com



ES

ESKER
RESOURCES LTD.

600, 706-7th Avenue S.W. Calgary, Alberta T2P 0Z1
Tel: (403) 269-2367 Fax: (403) 294-0287